

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-4-G - ORDER NO. 2008-622
SEPTEMBER 17, 2008

IN RE: Annual Review of Purchased Gas)	ORDER APPROVING
Adjustment and Gas Purchasing Policies of)	PURCHASED GAS
Piedmont Natural Gas Company, Inc.)	ADJUSTMENT AND GAS
)	PURCHASING POLICIES

This matter comes before the Public Service Commission of South Carolina (“Commission”) on its annual review¹ of the Purchased Gas Adjustment (“PGA”) and gas purchasing policies of Piedmont Natural Gas Company, Inc. (“PNG”). The Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2007). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a Settlement Agreement (“Settlement Agreement”) which was filed with the Commission on July 15, 2008.

S.C. Code Ann. § 58-3-140 (A) (Supp. 2007) vests the Commission with the “power and jurisdiction to supervise and regulate the rates and service of every public utility in this State...” In carrying out these duties in relation to the oversight of the Company’s PGA and subsequent Settlement Agreement with ORS, the Commission’s published “Settlement Policies and Procedures” (Revised 6/13/2006) are applicable to guide this proceeding. Specifically, Section II of the Settlement Policies and Procedures, titled “Consideration of Settlements,” states:

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review).

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission's consideration of the settlement... [W]hen the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

We find this case presents issues of significant implication for the utility and the public interest. To carry out our duties of oversight, we held an evidentiary hearing in connection with the Settlement Agreement to determine whether it should be adopted.

The Commission conducted its formal hearing in this matter on July 30, 2008, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable Elizabeth B. Fleming, Chairman, presiding. Jeffrey M. Nelson, Esquire, appeared on behalf of ORS. James H. Jeffries, IV, Esquire, and Jeremy Hodges, Esquire, appeared on behalf of PNG.

At the hearing, the Commission accepted into the record the pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams, as well as the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct testimony of Carey M. Flynt, along with the settlement testimony of Carey M. Flynt. The Commission also accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Sullivan's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Thornton's exhibits were admitted into evidence as composite Hearing

Exhibit No. 3. Mr. Williams' exhibits were entered into evidence as composite Hearing Exhibit No. 4.

PNG witness Maust testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. He testified that PNG did not implement any changes in its "best cost" gas purchasing policies or practices during the Review Period (April 1, 2007 to March 31, 2008) and that PNG's hedging plan accomplished the goal of reducing gas cost volatility to South Carolina customers purchasing gas from PNG. PNG's South Carolina customers incurred a net economic cost of \$1,898,938 as a result of PNG's hedging plan during the Review Period. Furthermore, the "best cost" purchasing policy has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Thornton testified that PNG continued to evaluate gas costs recorded for the periods November 2006 through March 2008 after the conclusion of proceedings in Docket No. 2007-4-G to determine if any other adjustments to PNG's financial statements were necessary to properly state PNG's gas costs for that period. The evaluation resulted in slight adjustments to PNG's prior period gas costs and inventory balances, and the adjustments are reflected in the beginning balance of those accounts for this Review Period. The adjustment to the deferred account was an increase of \$34,492 resulting in a revised undercollected beginning balance of \$1,694,901. The adjustment to the inventory balance was a decrease of \$310,863 resulting in a revised inventory beginning balance of \$83,263,963. PNG witness Thornton further testified that it was his understanding that both ORS and PNG agreed with the revised undercollected

beginning balance, at April 1, 2007, in the Deferred Account No. 253.04 in the amount of \$1,694,901 and the revised inventory beginning balance of \$83,263,963.

PNG witness Williams testified that PNG serves approximately 132,000 customers in South Carolina and during the twelve month period ending March 31, 2008, PNG delivered approximately 22,520,000 dekatherms of natural gas to its South Carolina customers. PNG has experienced a reduction in weather normalized usage per customer which may be due to the efficiency of new appliances used by customers as well as increased price awareness and conservation efforts on the part of customers. PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. PNG has also announced its intention to build a 1.25 Bcf LNG facility which will be available to meet PNG's peaking needs beginning in the 2012/2013 winter heating season.

ORS witness Sullivan testified that ORS had performed an examination of Deferred Account No. 253.04 for the Review Period. It is the opinion of ORS that account No. 253.04 is accurately stated and that the balance of \$8,936,406 fairly represents PNG's under-collection balance as of March 31, 2008.

ORS witness Flynt testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to prudently purchase supplies at prices competitive with industrial alternate fuels, as well as reducing costs to high priority customers; managed its hedging program in a reasonable and prudent manner during the

Review Period; and is prepared to meet forecasted future demand requirements. In addition, ORS does not recommend any change to the benchmark cost of gas at this time.

In the settlement testimony, ORS witness Flynt testified that ORS has determined that the terms of the Settlement Agreement serve the public interest and the Settlement Agreement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding. The Settlement Agreement balances the concerns of the using public and preserves the financial integrity of PNG. ORS believes the Settlement Agreement does not inhibit economic development, and ORS recommends approval of the Settlement Agreement.

The July 15, 2008 Settlement Agreement reflected the Parties agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Daniel F. Sullivan and the pre-filed direct testimony and settlement testimony of Cary M. Flynt are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and part of this Order by reference and, based upon the testimony and exhibits presented at the hearing of this matter, is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

4. Based upon the evidence presented, the Commission finds that PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

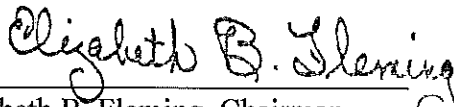
5. Based upon the evidence presented, the Commission finds that PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

6. Based upon the evidence presented, the Commission finds that PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

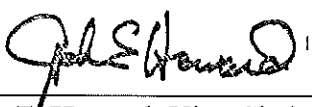
7. The Commission credits the testimony of ORS witness Daniel F. Sullivan and adopts the end-of-period balances for PNG's hedging and deferred gas cost accounts reflected therein.

8. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:


Elizabeth B. Fleming, Chairman

ATTEST:


John E. Howard, Vice Chairman
(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-4-G

IN RE:

Annual Review of Purchased Gas)	
Adjustment and Gas Purchasing)	SETTLEMENT AGREEMENT
Policies of Piedmont Natural Gas)	
Company, Incorporated)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by the Public Service Commission of South Carolina ("Commission") Order No. 88-294, dated April 6, 1988, the Commission instituted an annual review of PNG's Purchased Gas Adjustment and Gas Purchasing Policies. Additionally, in Order No. 2002-223, dated March 26, 2002 in Docket No. 2001-410-G, the Commission required PNG to file regular reports on the status of the hedging program and the results of its hedging activities. In the above-captioned proceeding the review period is April 1, 2007 through March 31, 2008 ("Review Period");

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interest and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of Keith P. Maust, and the direct testimony and exhibits of PNG witnesses William C. Williams and Robert L. Thornton, without objection, change, amendment, or cross-examination by the Parties. PNG will present its witnesses at the hearing.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct testimony and exhibits and settlement testimony of ORS witness Carey M. Flynt, without objection, change, amendment, or cross-examination by the Parties. ORS will present its witnesses at the hearing.

3. The Parties further agree that with the stipulated testimony of record and with the agreement of the Parties to the review period activity and end-of-period account balances reflected in the testimony of ORS witness Carey M. Flynt and the testimony and exhibits of ORS witness Daniel F. Sullivan, the hearing record then before the Commission will conclusively demonstrate the following: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent, (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period, (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

4. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

5. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

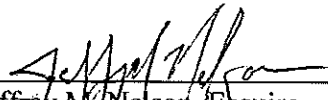
6. This agreement shall be interpreted according to South Carolina law.

7. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGES FOLLOW]

WE AGREE:


Representing and binding the Office of Regulatory Staff



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WE AGREE:

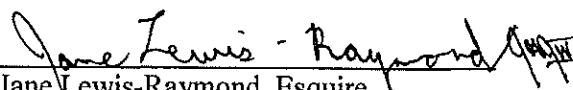
Representing and binding Piedmont Natural Gas Company, Inc.



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WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.



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